

AR32



CANADIAN BONANZA PETROLEUMS LTD. 1972 ANNUAL REPORT

COVER

Vanderbilt Bonanza
International Jones #1
indicated gas condensate
discovery well on the
Company's Kinner Gully
prospect in South West
Louisiana.

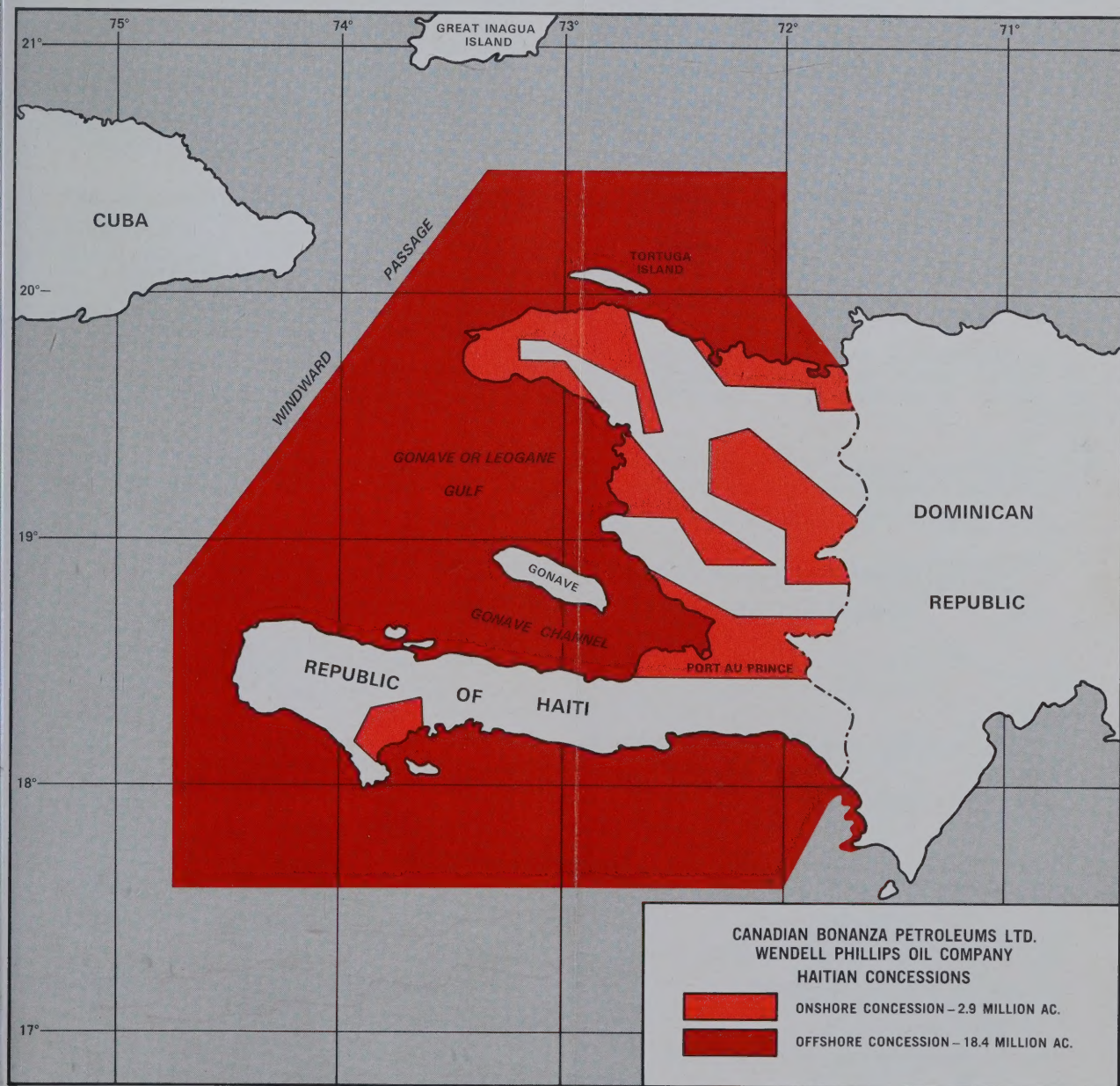
TO THE SHAREHOLDERS:

It is a pleasure to present the Interim Report of the company for the six months ended March 31, 1972. The major financial transactions referred to in the last annual report including the sale of the company's wholly-owned subsidiary, Frisco Petroleum Ltd., to Canadian Industrial Gas & Oil Ltd., the conversion of the outstanding debentures into shares of the company and the distribution of 375,000 shares of Canadian Industrial Gas & Oil Ltd. to the shareholders as a tax-free dividend have all been finalized. The company

now is in the enviable position of having \$3,667,000 in working capital and is completely debt free.

Net earnings for the six months ended March 31, 1972, totalled \$5,330,655, which included an extraordinary gain of \$5,336,343 realized on the sale of the company's wholly-owned subsidiary, Frisco Petroleum Ltd. The company had a net loss of \$62,343 for the comparative six-month period in 1971.

It is the intention of the company to aggressively participate in the exploration for petroleum and natural gas in both Canada and frontier international areas.



To this end, Bonanza International Petroleum Ltd., a wholly-owned subsidiary of Canadian Bonanza Petroleum Ltd., has finalized joint exploration agreements with Wendell Phillips Oil Company of London covering approximately 21,000,000 onshore and offshore acres in the Republic of Haiti and five separate drilling prospects in the Gulf coast area of South West Louisiana, U.S.A.

Haiti

The company is participating to the extent of 10% in the Haiti concession, one of the world's largest, covering approximately 3,000,000 acres onshore and 18,000,000 acres offshore. Preliminary geological surveys have identified several structural anomalies and a detailed geophysical program is expected to commence during the next two months.

Louisiana

The company is also participating to the extent of 20% in a minimum five well exploratory drilling program near the Gulf coast in South Louisiana, U.S.A. Each of the five separate prospects has the potential for 300-500 billion cubic feet of natural gas and substantial volumes of condensate and will be drilled to depths ranging from 11,000 to 16,000 feet. The large number of potentially productive horizons in this area in addition to the miocene formation which is the main target serve to substantially reduce the risk factor.

It is expected that the first well in this program will be spudded in the near future. The total cost of the program is expected to be approximately \$1,800,000.

Gabon

The company is participating to the extent of 25% in a 247,040 acre concession offshore Gabon, central

west Africa. A detailed seismic program was conducted on this concession during April, 1972, and the data is presently being processed.

Sable Island

Canadian Bonanza Petroleum Ltd. continues to hold a 2% gross overriding royalty on 91,824 acres in the Sable Island area offshore the east coast of Canada. During April, 1972, Shell Canada Ltd. announced that its most recent wild cat well — Shell Primrose N-50, which was drilled 4 miles west of the royalty lands owned by Canadian Bonanza, encountered four zones capable of producing hydrocarbons with a combined potential of approximately 20 million cubic feet of gas and 300 barrels of oil per day.

Shell announced that additional seismic work would be conducted and that further drilling in the immediate area would be undertaken. A detailed seismic program has now been completed on the lands on which the company holds the royalty interest.

Alberta - Saskatchewan

During the summer of 1972 Canadian Bonanza will drill a minimum of 2 wells in the Provost area of Alberta to follow up a Viking gas discovery made in that prospect during the fall of 1971, will participate in the drilling of at least one well in the Fosterton area of Saskatchewan and will commence exploration and development of its substantial shallow gas reserves in the Lake Newell area of south east Alberta.

Submitted on behalf of the board of directors.

John J. Fleming
President

David G. Ferguson
Chairman of the Board

Canadian Bonanza Petroleum Ltd. and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

	For The Six Months Ended March 31	
	1972	1971
Revenue		
Interest and other income	\$ 16,977	\$ 2,616
Expenses		
General and administrative	74,283	60,965
Interest	—	59,326
	<u>74,283</u>	<u>120,291</u>
Loss on continuing operations	57,306	117,675
Net earnings of wholly owned subsidiary company sold	51,618	55,332
	<u>57,306</u>	<u>117,675</u>
Loss before extraordinary item	5,688	62,343
Gain on sale of wholly owned subsidiary company	5,336,343	—
	<u>5,336,343</u>	<u>62,343</u>
Net earnings (loss) for the period	5,330,655	(62,343)
Deficit at beginning of period	(212,469)	(238,028)
Dividends paid	(3,795,063)	—
	<u>(3,795,063)</u>	<u>—</u>
Retained earnings (deficit) at end of period	\$ 1,323,123	\$ (300,371)

Canadian Bonanza Petroleum Ltd. and subsidiary companies

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 1972

ASSETS

Current Assets

Cash and term deposits	\$ 2,357,671
Accounts receivable	36,947
Marketable securities, at cost (Quoted Market value \$1,161,010)	1,272,340
	<u>3,666,958</u>

Other Investments and Advances	313,675
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Petroleum, Natural Gas and Mineral Leases and Rights together with Exploration and Development thereon, at cost	628,486
	<u>\$ 4,609,119</u>

SHAREHOLDERS' EQUITY

Capital Stock

Authorized	
30,000,000 common shares of no par value	
10,000,000 8% non-cumulative, redeemable convertible voting preferred shares of the par value of \$1 each	
Issued	
5,778,467 common shares	3,285,996

Retained Earnings	1,323,123
	<u>\$ 4,609,119</u>

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

	Six Months Ended March 31	
	1972	1971
Source of Funds		
Proceeds on sale of wholly owned subsidiary company (net)	\$ 7,538,600	—
Proceeds on issuance of capital stock	66,880	—
Long term debt	—	\$ 25,054
	<u>7,605,480</u>	<u>25,054</u>
Use of Funds		
Operations	52,306	120,291
Petroleum, natural gas and mineral leases and rights together with exploration and development thereon	256,081	6,664
Repayment of long term debt	190,199	—
Dividends paid	3,795,063	—
	<u>4,293,649</u>	<u>126,955</u>
Increase (Decrease) in working capital	3,311,831	(101,901)
Working capital - (Deficiency) beginning of period	355,127	(1,233,112)
Working capital - (Deficiency) end of period	<u>\$ 3,666,958</u>	<u>\$ (1,335,013)</u>

(Subject to year end adjustments and audit)

AR31

Canadian Bonanza Petroleums Ltd.



Interim Report
FOR THE
SIX MONTHS ENDED
MARCH 31, 1972

702 BRITANNIA BUILDING
CALGARY, ALBERTA

1972 HIGHLIGHTS

- Sale of all of the shares of Frisco Petroleums Ltd. for 755,000 shares of Canadian Industrial Gas & Oil Ltd.
- Payment of a tax free capital dividend in the amount of \$3,797,514.
- International exploration program commenced by wholly-owned subsidiary, Bonanza International Petroleums Ltd.
- Company working capital as at September 30, 1972, was \$3,234,887.
- William A. Bell joined the company as Vice President — Exploration.

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The annual meeting of the shareholders will be held on Saturday, March 31, 1973, at 10:00 A.M. at the International Hotel in Calgary, Alberta.

Directors and Officers

David G. Ferguson

Chairman of the Board and Director
Calgary, Alberta

John J. Fleming

President and Director
Calgary, Alberta

Seymour Schulich

Director
Montreal, Quebec

Jerome Reyda

Director
Edmonton, Alberta

William A. Bell

Vice President — Exploration
Calgary, Alberta



CANADIAN BONANZA PETROLEUMS LTD.
1972 ANNUAL REPORT

REPORT TO THE SHAREHOLDERS

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The year ended September 30, 1972, was to a large degree one of financial reorganization. With the sale of the company's wholly-owned subsidiary, Frisco Petroleum Ltd., to Canadian Industrial Gas & Oil Ltd., the company was placed in a very sound financial position and the heavy burden of in excess of \$3 million long-term debt and current capital obligations of a further \$2.7 million was eliminated. After such reorganization the company was able to aggressively pursue a program of exploration and acquisitions. This program has resulted during 1972 in the addition of substantial oil and gas reserves without a major reduction in the company's strong working capital position.

The company has been approached by a number of drilling fund groups in the United States and negotiations are presently underway with a view toward reaching agreement on joint exploration programs in both Canada and the United States.

It is expected that during 1973 the company will participate in a minimum of 15 exploratory wells in Canada as well as a number of development oil and gas wells on presently existing properties, and a minimum of 10 wells in the South Louisiana area of the United States.

Mr. L. Don Halvorsen, formerly a director and Vice President in charge of Exploration and Production, retired during September, 1972. We wish to express our sincere appreciation to Mr. Halvorsen for the invaluable assistance he provided to the company during the past 3 years.

The company has a team of capable, proven exploration and administrative people and with an exceptionally strong working capital position, expects to aggressively pursue a program of exploration and acquisitions both in Canada and on an international basis during 1973.

Respectfully submitted on
behalf of the Board.

John J. Fleming
President

David G. Ferguson
Chairman of the Board



Left to right:

David G. Ferguson
Chairman of the
Board and Director

William A. Bell
Vice President —
Exploration

John J. Fleming
President and
Director

RESERVES

The company's share of proven and probable reserves as determined by independent engineers are 1,678,000 barrels of oil and 55 BCF of gas. All of the company's oil and gas reserves are located in Alberta and Saskatchewan. The above noted reserves have all been established during 1972.

Effective December 31, 1971, substantially all of the producing oil and gas properties held at that time were sold to Canadian Industrial Gas & Oil Ltd.

DRILLING

The company participated in the drilling of 10 wells in Alberta and Saskatchewan during 1972. This resulted in 5 oil wells, 2 gas wells and 3 dry holes. The successful wells served to establish oil reserves in the Bellshill Lake and Pembina areas of Alberta and the Plato area in Saskatchewan, and gas reserves in the Lake Newell and Provost areas of Alberta and the Hatton area of Saskatchewan.

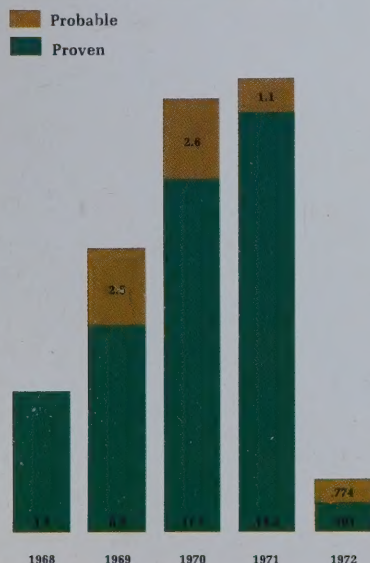
Subsequent to December 31, 1972, the company participated in the drilling of four successful

oil wells in the Pembina area of Alberta and two successful gas wells in the Lake Newell area.

CANADIAN EXPLORATION

The Canadian exploration program, which is expected to increase substantially during 1973, will be under the supervision of William A. Bell, who recently joined the company as Vice President — Exploration. Mr. Bell who was formerly with Mana Resources, Inc. and more recently with Barnwell Canada Ltd. brings approximately 15 years of Canadian oil and gas exploration experience to the company.

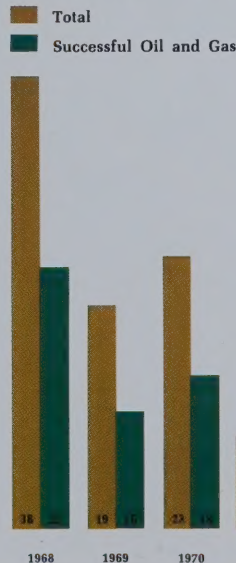
OIL RESERVES Millions of Barrels



GAS RESERVES Billions of Cubic Feet



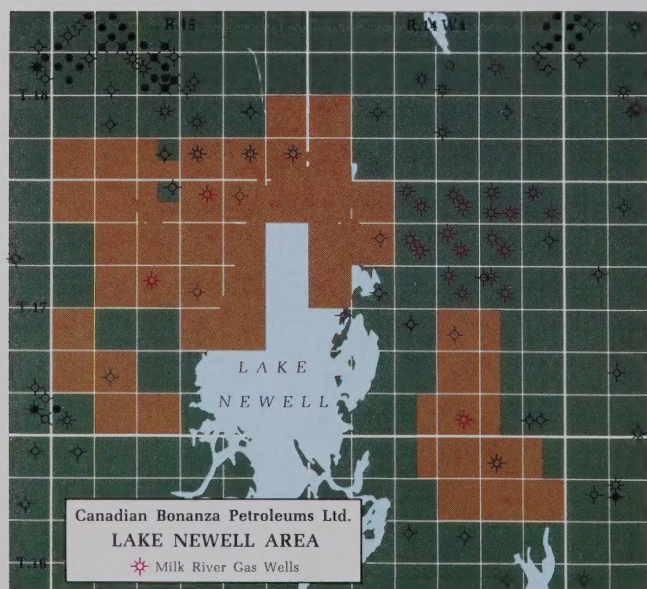
WELLS DRILLED



Lake Newell

Canadian Bonanza holds interests varying from 12.5% to 44.25% in approximately 29,000 acres lying immediately south of the Countess "D" oilfield in southern Alberta. Shallow gas reserves referred to in previous reports have now been substantiated by three successful gas wells drilled on the acreage. The acreage is offset to the east by eighteen successful Milk River gas wells drilled by PanCanadian Petroleum Ltd. who are also the operators of the Bonanza acreage. Gas sales contracts are currently being negotiated and it is expected that a major development program covering this area will be initiated during 1973.

The extension of the prolific Countess "D" oil trend onto this acreage continues to be elusive, but the company is hopeful that a portion of the acreage may yet be oil productive. It is expected that at least two deeper exploratory wells will be drilled on this acreage during 1973.

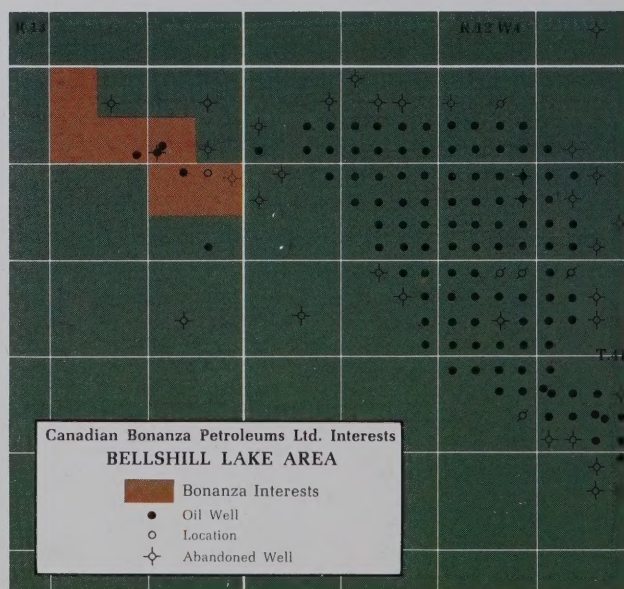


Bellshill Lake

During the year the company acquired a land position in this area which included two shut in oil wells. The company then drilled and completed a third well and thus proved a substantial oil reserve. Installation of all production facilities including the necessary pipeline is presently underway, and it is expected that these wells will be on stream during the next three months. It is believed that these wells will prove to be an extension of the Bellshill Lake field and that the additional drilling planned for this property during 1973 will prove significant additional reserves.

Hatton

During the year the company acquired a 20% working interest in approximately 35,000 acres in the Hatton area of south west Saskatchewan. Seven successful gas wells have now been drilled on this property. Negotiations are presently underway with respect to gas



contracts and it is expected that development drilling and pipeline construction will commence during 1973.

Pembina

During the year the company acquired an 8.44% working interest in the Pembina Belly River "B" East Unit and subsequently participated in the drilling of three successful development oil wells. During 1973 the company participated in a further four successful development wells in this unit. The waterflood facilities pertaining to this unit have now been completed and it is expected that the company will realize substantial revenues from this property commencing in 1973 when the waterflood begins to take effect.

Plato

During the year the company participated in the drilling of a well approximately 4 miles south east of the Plato Viking oil field in south western Saskatchewan. The well was completed as an oil discovery and the company and its partners subsequently purchased a drilling

reservation in the area. The first well on the reservation was unsuccessful.

The discovery well is now being tested on a longer term basis and the results of such test will to a large degree determine the extent of the planned follow-up drilling program.

Other Areas

The company participated in a well in the Lindale area of Central Alberta and in so doing, earned an approximate 20% interest in 5 sections. The well was abandoned after encountering gas in non-commercial quantities. City Service Canada Ltd. acquired the offsetting drilling reservation that had been posted by the company which suggests that an additional well will be drilled in close proximity to the company's acreage.

Negotiations are presently being carried on regarding a gas sale contract covering the company's reserves in the Provost area. It is expected that such contract will be executed in time to enable the company to commence delivery of gas during the latter part of 1973.



Royalty Interests

Sable Island

The company continues to hold a 2% gross overriding royalty on 91,824 acres east of Sable Island off the east coast of Canada. This acreage is immediately east of the Primrose drilling program being conducted by Shell Canada Limited. This first well in that drilling program — Shell Primrose N-50, which is an indicated gas discovery, is approximately 4 miles west of the company's royalty acreage. A detailed seismic program has been completed on the lands on which the company holds a royalty interest.

Pointed Mountain

The company holds a 2% to 3% gross overriding royalty on two permits in the Pointed Mountain area of the Northwest Territories. The two permits cover 124,164 acres. A recent gas discovery approximately 30 miles south of this acreage, high gas prices and an extension of the existing pipeline toward this area, have caused a great deal of seismic and drilling activity in this area. A well, Mesa Nahanni L20, is presently being drilled on one of the permits in which the company has a royalty and a detailed seismic program is planned for the second permit during 1973.

Other Royalties

In addition the company holds a 1.5% gross overriding royalty on approximately 545,000 acres off the coast of Prince Patrick Island in the Canadian Arctic, 1% gross overriding royalty on 108,000 acres off the coast of Nova Scotia and other royalties from 1% to 5% on approximately 90,000 acres in the Northwest Territories and in south east Alberta.

INTERNATIONAL EXPLORATION

Bonanza International Petroleum Ltd., a wholly-owned subsidiary, has been actively participating in foreign exploration ventures primarily in Gabon offshore West Africa, Haiti and South Louisiana. The company is also participating in applications for concessions off the Mediterranean coast of Spain and in the Norwegian sector of the North Sea.

The company recently opened an exploration office in Houston, Texas, which will be managed by Mr. Donald L. Hall who has joined the company as Manager — U.S. Exploration. Mr. Hall who was formerly Executive Vice President of H. Gruy & Associates, Inc., internationally recognized consulting engineers, has in excess of twenty years oil and gas exploration experience primarily in the South Louisiana area.

South Louisiana

During the latter part of 1972 the company commenced an exploration program in South Louisiana, which was chosen as a major area of interest because of the high demand for gas and gas condensate, the close proximity of gas pipelines and gas processing facilities, and the large reserve potential as evidenced by the numerous and substantial producing fields in this area.

The fact that a large number of major petroleum companies spent approximately 1.7 billion dollars to acquire leases off the South Louisiana coast at the land sale held during December, 1972, is indicative of the high expectations that the industry has for this general area.

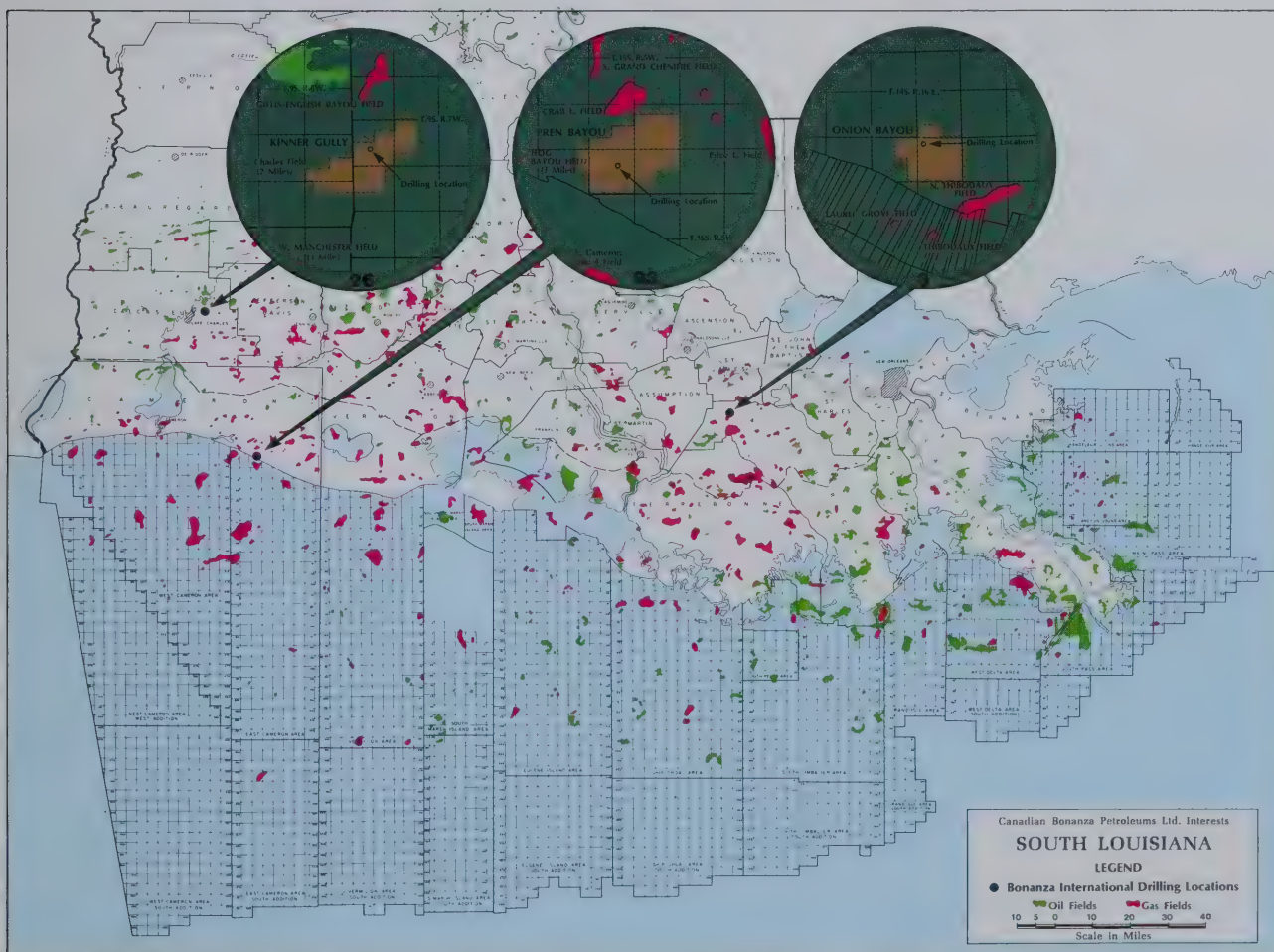
In addition, gas purchasers in the area are presently offering 55¢ per MCF for gas and \$4.00 per barrel for gas condensate in the South Louisiana area. Such prices greatly enhance the economics of any gas found in this area.

The initial program in this general area is comprised of 3 separate prospects developed by the Company. Agreements were reached with others to drill the first well on each of the prospects at no drilling cost to the company. The exact working interest of the company is not determinable until the first well in each prospect has been drilled and will be a function of the Company's costs in initiating these prospects relative to the total of such costs and the costs of the others in drilling the first wells on these prospects. The company estimates that its working interest in each of the 3 prospects will be approximately 30%.

Kinner Gulley Prospect #26

This prospect consisting of approximately 1462 gross acres was the first to be tested by the Company with the initial test, Vanderbilt Resources Bonanza International Jones #1, currently drilling below 11,000 feet. The well established the presence of hydrocarbons at 10,230 feet after which the well was logged and cased prior to drilling to total depth of approximately 12,000 feet. Extensive production tests will be carried out on this well during the next month.

The well is located 3.5 miles east of the City of Lake Charles, Calcasieu Parish, South Louisiana. Petroleum and natural gas is



presently being produced from several fields within a 10-mile radius; namely, Gillis English Bayou Field directly north of the prospect area, Iowa Field to the northeast, Lake Charles Field to the west and Manchester Field to the south.

Onion Bayou Prospect #3

This prospect consists of approximately 1,050 gross acres and the initial test well, Vanderbilt Resources Bonanza International Southdown Sugars #1, commenced drilling on February 14, 1973. This well encountered a number of non-commercial gas zones and was, therefore, abandoned.

Prenn Bayou Prospect #93

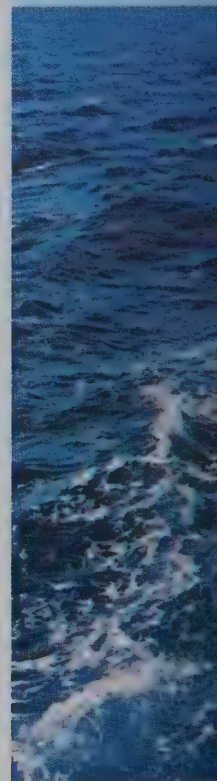
This prospect consisting of approximately 1,840 gross acres is located 40 miles southeast

of Lake Charles and 26 miles east-southeast of Cameron, in Cameron Parish, Southwestern Louisiana, and the first well is currently drilling below 10,000 feet.

Gas and natural gas liquids are being produced from fields within a 6 mile radius; namely, Crab Lake Field, Price Lake Field, Hog Bayou Field and East Cameron Block 4 offshore directly to the south.

In addition an offshore location has been announced by another operator which will directly offset the southern position of the company's land.

The company has completed the land acquisition with respect to two additional prospects in the South Louisiana area and it is



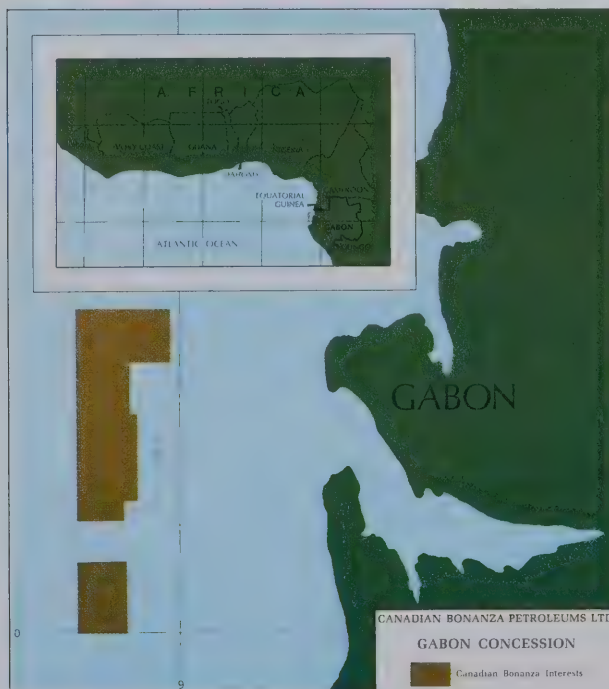
anticipated that wells on these prospects will commence within the next two months.

Gabon

The company holds a 25% interest in 247,000 acres offshore Gabon, West Africa. The permit, known as Libreville Marine West, is located 25 miles offshore from the coastal area near Libreville and 50 miles due north of the Port Gentil oil region. A general geophysical survey was completed during 1972 and was followed by a detailed geophysical survey. This survey has revealed similar geologic conditions to those found in Gabon's Port Gentil area. The presence

of salt intrusions and accompanying indications of structural doming of sedimentary beds are apparent on the seismic lines. The survey was designed as a broad reconnaissance and interpretation of the data has outlined four main structurally favorable areas. Further detailed seismic work is planned for early 1973, and discussions are presently underway with other major exploration companies operating in that area with a view toward conducting a joint exploration program including the drilling of at least one well.

Marine seismic exploration on the Company's Gabon concession offshore West Africa.



Haiti

The company is participating to the extent of 10% in a concession granted by the Republic of Haiti to the Wendell Phillips Oil Company. The concession contract covering 21.3 million acres includes approximately 2.9 million acres onshore and 18.4 million acres offshore.

An exhaustive regional geological study has been prepared by J. J. Arps & Associates, independent engineers, which has identified several structural anomalies. A seismic program has been recommended by the consulting engineers and it is expected that such a program will commence during the summer of 1973.



FINANCIAL

During the year ended September 30, 1972, a number of major transactions occurred, the most significant of which was the sale of the company's wholly-owned subsidiary, Frisco Petroleum Ltd., for 755,000 shares of Canadian Industrial Gas & Oil Ltd. Such transactions had the effect of increasing the company's working capital to \$3,234,887 from \$320,823 as at September 30, 1971. The company's working capital position as at September 30, 1972, is after giving effect to the distribution during March, 1972, of \$3,797,514 to the shareholders by way of a tax free capital dividend paid in shares of Canadian Industrial Gas & Oil Ltd.

The financial statements do not reflect any revenues or expenses from oil and gas operations since all the company's producing properties were included in the sale to Canadian Industrial Gas & Oil Ltd. It is expected that the company will show substantial revenues from operations during the coming year when its new properties come on stream.

During the year the company's previously outstanding \$500,000 7% convertible debentures were converted into shares and the other long-term debt was liquidated to place the company in a debt-free position.

With its very strong financial position, the company has embarked on an aggressive program of exploration and acquisitions with the objective of establishing a strong cash flow with which to further expand its activities.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 1972

	<u>1972</u>	<u>1971</u>
SOURCE OF FUNDS		
Net earnings	\$5,306,303	\$ 16,722
Non-cash charges (credits)	<u>(5,289,540)</u>	<u>61,608</u>
	16,763	78,330
Issue of common shares (Note 4)	574,880	88,540
Long-term debt	705,552	1,993,190
Proceeds on sale of wholly-owned subsidiary company (Note 2)	<u>7,426,668</u>	<u>—</u>
	<u>8,723,863</u>	<u>2,160,060</u>
USE OF FUNDS		
Fixed assets	1,322,087	472,171
Dividend (Note 2)	3,797,514	—
Long-term debt	690,198	—
Financing and Stock Exchange listing costs	<u>—</u>	<u>59,550</u>
	<u>5,809,799</u>	<u>531,721</u>
INCREASE IN WORKING CAPITAL	2,914,064	1,628,339
Working capital (deficiency) at beginning of year	<u>320,823</u>	<u>(1,307,516)</u>
WORKING CAPITAL AT END OF YEAR	<u>\$3,234,887</u>	<u>\$ 320,823</u>

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1972

ASSETS

	<u>1972</u>	<u>1971</u>
CURRENT ASSETS		
Cash	\$ 132,913	\$ 460,436
Temporary interest-bearing investments, at cost which approximates market	3,018,113	—
Accounts receivable	<u>101,155</u>	<u>74,068</u>
	3,252,181	534,504
INVESTMENT IN AND ADVANCES TO WHOLLY- OWNED SUBSIDIARY COMPANY (Note 1)		
Lind Ranches Limited	344,254	329,627
FIXED ASSETS (Note 1) .		
Petroleum, natural gas and mineral leases and rights together with exploration, development and equipment thereon	\$1,022,022	
Accumulated depletion and depreciation	<u>10,847</u>	<u>5,046,395</u>
	<u>1,011,175</u>	<u>5,046,395</u>
	<u>\$4,607,610</u>	<u>\$5,910,526</u>

Signed on behalf of the Board:

DAVID G. FERGUSON, Director

JOHN J. FLEMING, Director

LIABILITIES

	<u>1972</u>	<u>1971</u>
CURRENT LIABILITIES		
Accounts payable and accrued charges	\$ 17,294	\$ 152,570
Current maturities on long-term debt	<u>—</u>	<u>61,111</u>
	17,294	213,681
LONG-TERM DEBT	<u>—</u>	<u>3,190,198</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 4)

Authorized

30,000,000 common shares of no par value
 10,000,000 8% non-cumulative, redeemable
 convertible, voting preferred
 shares of the par value of
 \$1 each

Issued

5,778,465 (1971 — 4,806,976) common shares 3,293,996 2,719,116

RETAINED EARNINGS (DEFICIT)	<u>1,296,320</u>	<u>(212,469)</u>
	4,590,316	2,506,647

\$4,607,610

\$5,910,526

CONSOLIDATED STATEMENT OF EARNINGS **FOR THE YEAR ENDED SEPTEMBER 30, 1972**

	<u>1972</u>	<u>1971</u>
REVENUE		
Interest and other income	\$ 105,278	\$ 6,621
EXPENSES		
General and administrative	145,242	60,823
Interest	8,657	92,562
Depreciation	<u>5,094</u>	<u>844</u>
	<u>158,993</u>	<u>154,229</u>
Loss from continuing operations	(53,715)	(147,608)
Earnings of Lind Ranches Limited (Note 1)	7,076	35,492
Earnings of subsidiary company sold (Note 2)	<u>51,618</u>	<u>128,838</u>
NET EARNINGS BEFORE EXTRAORDINARY ITEM	4,979	16,722
Gain on sale of subsidiary company (Note 2)	<u>5,301,324</u>	<u>—</u>
NET EARNINGS	<u><u>\$5,306,303</u></u>	<u><u>\$ 16,722</u></u>
EARNINGS PER SHARE		
(based on average number of shares outstanding)		
Net earnings before extraordinary item	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>
Net earnings	<u><u>\$.97</u></u>	<u><u>\$ —</u></u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

FOR THE YEAR ENDED SEPTEMBER 30, 1972

	<u>1972</u>	<u>1971</u>
DEFICIT AT BEGINNING OF YEAR	\$ (212,469)	\$(212,671)
Net financing and Stock Exchange listing costs	—	(16,520)
Net earnings	<u>5,306,303</u>	<u>16,722</u>
	5,093,834	(212,469)
Dividends paid (Note 2)	<u>3,797,514</u>	<u>—</u>
RETAINED EARNINGS (DEFICIT) AT END OF YEAR .	<u><u>\$1,296,320</u></u>	<u><u>\$(212,469)</u></u>

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AUDITORS' REPORT

To the Shareholders
Canadian Bonanza Petroleum Ltd.

We have examined the consolidated balance sheet of Canadian Bonanza Petroleum Ltd. and its subsidiaries as at September 30, 1972 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1972 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in method of consolidation as explained in Note 1 to the consolidated financial statements.

Calgary, Alberta
November 20, 1972

RIDDELL, STEAD & CO.
Chartered Accountants

NOTES TO 1972 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ACCOUNTING POLICIES

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(a) Oil and Gas Properties

The company follows the full cost method of accounting for costs related to the exploration and development of petroleum and natural gas properties. Such costs are accumulated on an area of interest basis and will be amortized on the unit of production method based on estimated recoverable quantities of oil and gas in each area of interest or will be written off to income if exploration activities in the area prove unsuccessful.

(b) Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary Bonanza International Petroleums Ltd.

The company's investment in Lind Ranches Limited is carried in the accounts at cost together with the net earnings of that company from date of acquisition. Lind Ranches is not expected to be part of the continuing operations of the company and, accordingly, its accounts are not fully consolidated in the financial statements.

NOTE 2 SALE OF WHOLLY-OWNED SUBSIDIARY - FRISCO PETROLEUMS LTD.

During the year the company sold all of the shares of Frisco Petroleums Ltd. for 755,000 shares of Canadian Industrial Gas & Oil Ltd. Prior to this sale, Frisco's investment in Lind Ranches Limited was transferred to the company.

The company distributed 374,581 shares of Canadian Industrial Gas & Oil Ltd. to the shareholders as a dividend and sold the remaining 380,419 shares for cash.

NOTE 3 INCOME TAXES

The companies claim capital cost allowances, drilling, exploration and lease acquisition costs for income tax purposes in excess of the related amounts reflected in their accounts and provide in their accounts only for the taxes payable on their taxable income for the year. As at September 30, 1972, expenditures of \$428,693 (subject to final determination by taxation authorities) remain to be carried forward and applied against future taxable income.

NOTE 4 CAPITAL STOCK

During the year 62,400 common shares were issued for a total cash consideration of \$74,880 on the exercise of outstanding stock options and 909,089 common shares were issued on the conversion of the \$500,000 convertible debenture.

NOTE 5 DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

General and administrative expenses for the year ended September 30, 1972, include \$90,000 paid to directors and senior officers of the company.

HEAD OFFICE

702 Britannia Building
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SUBSIDIARY COMPANIES

Bonanza International Petroleums Ltd.
Bonanza Petroleums (Espana) Ltd.
Lind Ranches Limited
Bishop Minerals Ltd.

TRANSFER AGENT

Montreal Trust Company

BANKER

Canadian Imperial Bank of Commerce

AUDITORS

Riddell, Stead & Co.

SOLICITORS

Macleod Dixon

STOCK EXCHANGE LISTING

Toronto Stock Exchange



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